

Enterprise Zone Credit

Phone Numbers

For assistance, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix (602) 255-3381
 Tucson (520) 628-6421
 Other Arizona areas 1-800-352-4090
 Forms Orders (602) 542-4260
 Forms by FAX (602) 542-3756
 Recorded Tax Information
 Phoenix (602) 542-1991
 Other Arizona areas .. 1-800-845-8192
 Hearing impaired TDD users
 Phoenix (602) 542-4021
 Other Arizona areas .. 1-800-397-0256
 Internet..... <http://www.state.az.us/revenue>

If you have questions about where enterprise zones are located, contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341.

There are major changes to the enterprise zone tax credit provisions effective for taxable years beginning from and after December 31, 1995. The revised credit is for net increases in qualified employment positions, except those positions at a business location where tangible personal property is sold at retail. Taxpayers that claimed the credits for qualified employees and dislocated workers in prior taxable years may claim the credit for second and third year employees under those provisions. The following chart highlights the revised enterprise zone credit provisions.

Highlights of Enterprise Zone Credit for Taxable Years Beginning From and After December 31, 1995	
Enterprise Zone Credits for Qualified Employees and Dislocated Workers	Enterprise Zone Credit for Qualified Employment Positions
<ul style="list-style-type: none"> • Credit allowed only for previously qualified employees and previously dislocated workers in second or third year of continuous employment hired during a taxable year beginning prior to January 1, 1996. • Maximum allowable credit per previously qualified employee and previously dislocated worker is \$1,500 for second year, and \$2,500 for third year. • Credit carryover allowed (maximum of 5 taxable years) during life of enterprise zone program unless business relocates outside of enterprise zone or the zone is terminated. 	<ul style="list-style-type: none"> • Credit allowed for net increases in qualified employment positions. EXCEPTION: No credit allowed for qualified employment positions at a business location where tangible personal property is sold at retail. • Employees in qualified employment positions must be Arizona residents. • Maximum allowable credit per qualified employment position is \$500 for first year, \$1,000 for second year, and \$1,500 for third year. • Credit carryover allowed (maximum of 5 taxable years) during life of enterprise zone program unless business relocates outside of enterprise zone or the zone is terminated. • Business must be located in an enterprise zone prior to July 1, 1998, to be eligible for credit. • Thirty-five percent of employees in qualified employment positions for which the first year credit is claimed must be residents of an enterprise zone within the county in which the business is located.
How to Claim These Credits:	How to Claim This Credit:
Complete Parts I through VI and Part XIV of Arizona Form 304 and Arizona Forms 304-1 and 304-2.	Complete Parts VII through XIV of Arizona Form 304 and Arizona Forms 304-3 and 304-4.

NOTE: Taxpayers filing amended returns to claim the enterprise zone credit for prior taxable years must use the Arizona Form 304 for those taxable years.

Line-by-Line Instructions

Enter the taxpayer name and federal employer identification number or social security number as shown on the tax return. Fiscal year basis taxpayers must

indicate the period covered by the taxable year. Attach the completed forms to the tax return.

All returns, statements, and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where

requested. Taxpayers and paid preparers who fail to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Enterprise Zone Credits for Qualified Employees and Dislocated Workers

NOTE: A taxpayer participating in the enterprise zone credit program must certify certain information to the Arizona Department of Commerce. Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341 regarding certification requirements or to obtain certification forms or copies of enterprise zone program guidelines.

Taxpayers claiming only the enterprise zone credits for qualified employees and dislocated workers, complete Parts I through VI and Part XIV of Arizona Form 304, and Arizona Forms 304-1 and 304-2.

Effective for taxable years beginning from and after December 31, 1995, taxpayers may not claim the first year tax credits for individuals qualifying as "economically disadvantaged" or as "dislocated workers" that were hired January 1, 1996, or later. Taxpayers may claim the enterprise zone income tax credits for previously qualified employees and previously dislocated workers in the second or third year of continuous employment if the taxpayer claimed the first year or second year credit for such employees for a taxable year beginning prior to January 1, 1996.

There are two separate credits, the credit for net increases in employment of qualified employees and the credit for net increases in employment of dislocated workers. The eligibility requirements and the limitations apply separately to the credits. Therefore, the credits must be computed separately by the taxpayer.

The enterprise zone credits for qualified employees and dislocated workers are equal to:

1. One-third of the taxable wages paid to each previously qualified employee and to each previously dislocated worker, not to exceed \$1,500 per net new employee, in the second year of continuous employment.
2. One-half of the taxable wages paid to each previously qualified employee and to each previously dislocated worker, not to exceed \$2,500 per net new employee, in the third year of continuous employment.

If the allowable enterprise zone credit exceeds the taxpayer's income tax liability, the taxpayer may carry over any unused amount for up to five taxable years, providing the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone or the enterprise zone is terminated, the carryover of the tax credit is lost.

Part I - Business Information

Lines 1 through 3 -

On lines 1, 2 and 3, enter the name, address, Arizona withholding number, and federal employer identification number of the business which is at a site located in an enterprise zone.

On line 2, enter the address of the business' actual location in the enterprise zone, not the business' mailing address.

NOTE: Complete a separate Arizona Form 304 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in a designated enterprise zone, it must complete a separate Arizona Form 304 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must complete separate Arizona Forms 304 for each business location in each enterprise zone.

Part II - Credit Calculation for Qualified Employees

Lines 4 through 6 and Arizona Form 304-1

Important: Before completing lines 4 through 6, Part II of Arizona Form 304, complete the Arizona Form 304-1 listing each previously qualified employee for whom a credit is being claimed.

NOTE FOR PARTNERSHIPS:

Complete this section and attach a statement which lists the name of each partner, the partner's Social Security number or federal employer identification number, percentage of ownership, and the amount of credit passed through to the partner. The partnership must provide this information to each partner. Each partner must attach a copy of the statement provided by the partnership to the partner's Arizona tax return.

The enterprise zone credit is allowed for taxable years and, therefore, is computed on a taxable year basis and not on an employment year basis. Each taxable year is an employment year for purposes of the credit, regardless of when the employee's anniversary date occurs within the employer's taxable year. Refer to Arizona Corporate Tax Procedure CTP 95-1 for guidance on the calculation of the enterprise zone credit for a taxable year, including short period income tax returns filed due to a change in ownership. Call one of the Taxpayer Information and Assistance help numbers listed on page 1 of these instructions to obtain a copy of the tax procedure.

Line 4 - Column (a)

Enter the total number of previously qualified employees in the second year of continuous employment from Arizona Form 304-1, line 13, column (c1).

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year two, the business can claim the second year credit for another previously qualified employee who is in the second year of continuous employment.

Line 4 - Column (b)

Enter the maximum allowable wages for all previously qualified employees in the second year of continuous employment, from Arizona Form 304-1, line 13, column (e1).

Line 4 - Column (d)

Multiply the amount shown on line 4, column (b), by the percent shown on line 4, column (c). Enter the result on line 4,

column (d). This is the allowable credit for previously qualified employees in the second year of continuous employment.

Line 5 - Column (a)

Enter the total number of previously qualified employees in the third year of continuous employment from Arizona Form 304-1, line 13, column (c2).

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year three, the business can claim the third year credit for another previously qualified employee who is in the third year of continuous employment.

Line 5 - Column (b)

Enter the maximum allowable wages for all previously qualified employees in the third year of continuous employment from Arizona Form 304-1, line 13, column (e2).

Line 5 - Column (d)

Multiply the amount shown on line 5, column (b), by the percent shown on line 5, column (c). Enter the result on line 5, column (d). This is the allowable credit for previously qualified employees in the third year of continuous employment.

Line 6 -

Add the numbers in column (a) on lines 4 and 5. Enter the total in column (a) on line 6. Add the amounts in column (d) on lines 4 and 5. Enter the total in column (d) on line 6. The number shown on line 6, column (a), is the total number of qualified employees for which the enterprise zone credit is being claimed. The amount shown on line 6, column (d), is the total allowable enterprise zone credit for qualified employees for the current taxable year.

Part III - Credit Calculation for Dislocated Workers

Lines 7 through 9 and Arizona Form 304-2

Important: Before completing lines 7 through 9, Part III of Arizona Form 304, complete the Arizona Form 304-2 listing each previously dislocated worker for whom a credit is being claimed.

NOTE FOR PARTNERSHIPS:

Complete this section and attach a statement which lists the name of each partner, the partner's social security number or federal employer identification number, percentage of ownership, and the amount of credit passed through to the partner. The partnership must provide this information to each partner. Each partner must attach a copy of the statement provided by the partnership to the partner's Arizona tax return.

The enterprise zone credit is allowed for taxable years and, therefore, is computed on a taxable year basis and not on an employment year basis. Each taxable year is an employment year for purposes of the credit, regardless of when the employee's anniversary date occurs within the employer's taxable year. Refer to Arizona Corporate Tax Procedure CTP 95-1 for guidance on the calculation of the enterprise zone credit for a taxable year, including short period income tax returns filed due to a change in ownership. Call one of the Taxpayer Information & Assistance help numbers listed on page 1 of these instructions to obtain a copy of the tax procedure.

Line 7 - Column (a)

Enter the total number of previously dislocated workers in the second year of continuous employment from Arizona Form 304-2, line 13, column (c1).

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed net new dislocated workers leaves employment in year two, the business can claim the second year credit for another previously dislocated worker who is in the second year of continuous employment.

Line 7 - Column (b)

Enter the maximum allowable wages for all previously dislocated workers in the second year of employment from Arizona Form 304-2, line 13, column (e1).

Line 7 - Column (d)

Multiply the amount on line 7, column (b), by the percent shown on line 7, column (c). Enter the result on line 7, column (d). This is the allowable enterprise zone credit

for previously dislocated workers in the second year of continuous employment.

Line 8 - Column (a)

Enter the total number of previously dislocated workers in the third year of continuous employment from Arizona Form 304-2, line 13, column (c2).

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed net new dislocated workers leaves employment in year three, the business can claim the third year credit for another previously dislocated worker who is in the third year of continuous employment.

Line 8 - Column (b)

Enter the maximum allowable wages for all previously dislocated workers in the third year of continuous employment from Arizona Form 304-2, line 13, column (e2).

Line 8 - Column (d)

Multiply the amount shown on line 8, column (b) by the percentage shown on line 8, column (c). Enter the result on line 8, column (d). This is the allowable credit for previously dislocated workers in the third year of continuous employment.

Line 9 -

Add the numbers in column (a) on lines 7 and 8. Enter the total in column (a) on line 9. Add the amounts in column (d) on lines 7 and 8. Enter the total in column (d) on line 9. The amount shown on line 9, column (a), is the total number of dislocated workers for which the enterprise zone credit is being claimed. The amount shown on line 9, column (d), is the total allowable enterprise zone credit for dislocated workers for the current taxable year.

Part IV - Available Carryover

The business should complete Part IV only if its allowable enterprise zone tax credit for prior taxable years exceeded its Arizona income tax liability for those taxable years.

NOTE: *The business is allowed to carry forward the amount of the unused enterprise zone credit, for a period not to exceed five taxable years, provided the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone or the enterprise zone is terminated, the carryover of the tax credit is lost.*

Partners of a partnership or shareholders of an S corporation should complete Part IV only if their allowable enterprise zone tax credit for prior taxable years exceeded their Arizona income tax liability for those taxable years.

Line 10 -

Enter the applicable taxable year(s) in columns (a) through (e).

Line 11 -

In columns (a) through (e), enter the amount of the original tax credit earned for that taxable year.

Line 12 -

In columns (a) through (e), enter the amount of the tax credit for that taxable year which has been previously used.

Line 13 -

In columns (a) through (e), subtract the amount on line 12 from the amount on line 11. Enter the result in the applicable columns on line 13. This is the tentative carryover.

Line 14 -

In columns (a) through (e), enter the amount of the credit which is unallowable because the business is no longer located in the enterprise zone or the enterprise zone has been terminated.

Line 15 -

In columns (a) through (e), subtract the amount on line 14 from the amount on line 13. Enter the result in the applicable columns on line 15. This is the carryover available from prior taxable years.

Line 16 -

Add the amounts in columns (a) through (e) on line 15. Enter the total in column (f) on line 16. This is the total enterprise zone credit carryover available for the 1996 taxable year.

In order for a partner of a partnership or a shareholder of an S corporation to be eligible for an enterprise zone credit carryover, the business must remain in the enterprise zone. Therefore, a partnership or an S corporation that passed the credit through to its partners or shareholders must furnish each partner or shareholder with a statement indicating that the business is still located in the enterprise zone.

Each partner or S corporation shareholder must complete Part IV for the computation of the available carryover of the credit passed through by the partnership or S corporation.

Part V - Total Available Credit for Qualified Employees and Dislocated Workers

Lines 17 through 20 -

NOTE FOR PARTNERSHIPS: *The partnership must complete Parts I through III of the Arizona Form 304 and provide a copy of the completed Arizona Form 304 to each partner. Each partner must complete Part V for the application of the credit passed through by the partnership.*

NOTE FOR S CORPORATION SHAREHOLDERS: *Each shareholder must complete Part V for the application of the credit passed through by the S corporation (see Part VI).*

Line 17 -

Enter the amount from Part II, line 6, column (d). This is the current year's credit for qualified employees.

Important: If the business is claiming the enterprise zone credit for more than one business location, the business should attach a separate schedule which details the use of the credit by location. If the business is claiming an enterprise zone credit for qualified employees for more than one business location, enter the aggregate credit amounts on line 17.

NOTE FOR S CORPORATIONS: *If the S corporation has elected to pass the enterprise zone credit through to its shareholders (refer to Part VI), enter zero.*

Line 18 -

Enter the amount from Part III, line 9, column (d). This is the current year's credit for dislocated workers.

Important: If the business is claiming the enterprise zone credit for more than one business location, the business should attach a separate schedule which details the use of the credit by location. If the business is claiming an enterprise zone credit for dislocated workers for more than one business location, enter the aggregate credit amounts on line 18.

NOTE FOR S CORPORATIONS: *If the S corporation has elected to pass the enterprise zone credit through to its shareholders (refer to Part VI), enter zero.*

Line 19 -

Enter the amount from Part IV, line 16, column (f). This is the total available carryover.

Important: If the business is claiming an enterprise zone credit carryover for more than one business location, the business should attach a separate schedule which details the use of the credit carryover by location. If the business is an enterprise zone credit carryover for more than one business location, enter the aggregate credit carryover amounts on line 19.

Line 20 -

Add lines 17, 18, and 19. This is the total available enterprise zone credit for qualified employees and dislocated workers. Enter the total here and on Part XIV, line 47.

Part VI - Special Note for S Corporations

This portion of the Arizona Form 304 must be completed by the S corporation in order for the S corporation or its shareholders to claim the enterprise zone credit for qualified employees and dislocated workers. The S corporation must make an irrevocable election either to claim the credit itself or to pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Arizona Form 120S.

If the S corporation elects to pass the credit through to its shareholders, it must

also attach a statement which lists: the name of each shareholder; the shareholder's social security number or federal employer identification number; percentage of ownership; and amount of credit passed through to the shareholder. The S corporation must provide this information to each shareholder. Each shareholder must attach a copy of the statement provided by the S corporation to the shareholder's Arizona tax return.

NOTE: The S corporation must make the same election for the enterprise zone credits for qualified employees and dislocated workers in Part VI as it makes in Part XIII for the enterprise zone credit for qualified employment positions. If the S corporation elects to claim the credits for qualified employees and dislocated workers in Part VI, it must also elect to claim the credit for qualified employment positions in Part XIII.

Enterprise Zone Credit for Qualified Employment Positions

NOTE: A taxpayer participating in the enterprise zone credit program must certify certain information to the Arizona Department of Commerce. Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341 regarding certification requirements or to obtain certification forms or copies of enterprise zone program guidelines.

Taxpayers claiming only the enterprise zone credit for qualified employment positions complete Parts VII through XIV of Arizona Form 304 and Arizona Forms 304-3 and 304-4.

A business must be located within an enterprise zone prior to July 1, 1998, in order to be eligible for the enterprise zone credit for qualified employment positions. A business located within a zone by June 30, 1998, may qualify for the tax credit at any time during the life of the enterprise zone program. If a business is not located within an enterprise zone by June 30, 1998, it is not eligible for the enterprise zone tax credit for qualified employment positions.

Thirty-five percent of the employees in a qualified employment position for which the first year credit is claimed must be

residents of an enterprise zone within the county in which the business is located on the date of hire. The employees in the new qualified employment positions must have been hired for taxable years beginning from and after December 31, 1995.

The enterprise zone credit for qualified employment positions is equal to:

1. One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed \$500 per qualified employment position, in the first year or partial year of employment.
2. One-third of the taxable wages paid to an employee in a qualified employment position, not to exceed \$1,000 per qualified employment position, in the second year of continuous employment.
3. One-half of the taxable wages paid to an employee in a qualified employment position, not to exceed \$1,500 per qualified employment position, in the third year of continuous employment.

If the allowable enterprise zone credit exceeds the taxpayer's income tax liability, the taxpayer may carry over any unused amount for up to five taxable years, providing the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone or the enterprise zone is terminated, the carryover of the tax credit is lost.

Part VII - Business Information

Lines 21 through 23 -

On lines 21, 22, and 23, enter the name, address, Arizona withholding number, and federal employer identification number of the business which is at a site located in an enterprise zone.

On line 22, enter the address of the business' actual location in the enterprise zone, not the business' mailing address.

Line 24 - Sales of Tangible Personal Property at Retail

Answer the question on line 24. If the answer to this question is yes, the business is not eligible for an enterprise zone credit for any of its qualified employment positions (Part X, lines 33 through 36 of Arizona Form 304). The business is not eligible for the credit if the business sells

tangible personal property at retail at the business location in the enterprise zone. A retail sale of tangible personal property is a sale of tangible personal property to the ultimate consumer.

NOTE: Complete a separate Arizona Form 304 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in a designated enterprise zone, it must complete a separate Arizona Form 304 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must complete separate Arizona Forms 304 for each business location in each enterprise zone.

Part VIII - Net Increase in Qualified Employment Positions

The enterprise zone credit is based on net increases in qualified employment positions by a business located in an enterprise zone. The net increase in the number of qualified employment positions is determined by comparing the average full time employment during the current taxable year with the average full time employment during the immediately preceding taxable year. The net increase in qualified employment positions calculation includes all full time employees. It is not limited to full time employees in qualified employment positions. Full time employment means the position must be a minimum of 1,750 hours per year of regularly scheduled work hours. Do not include overtime hours in the minimum requirement computation.

Lines 25 and 26 -

On line 25, enter the average full time employment during the current taxable year. A new full time employee is a newly hired employee who was not employed by the employer within the preceding 12 months. Include new full time employees who were employed for at least 90 days during the taxable year. **EXCEPTION:** Count a full time employee hired during the last 90 days of the taxable year as a new employee during the next taxable year.

On line 26, enter the average full time employment during the immediately preceding taxable year. A newly established business in an enterprise zone would not have any full time employment within the zone during the immediately preceding taxable year. Such a business would have zero average full time employment during the immediately preceding taxable year. Therefore, such a business would enter zero on line 26 of the Arizona Form 304.

An established business already located in an area which subsequently becomes a designated enterprise zone would have full time employment at this location during the immediately preceding taxable year. This employer would calculate the average full time employment of the immediately preceding taxable year

according to the worksheet below. Line 15 of the worksheet's immediately preceding taxable year column is the amount which is entered on line 26 of the Arizona Form 304.

Complete the worksheet below to determine the average full time employment.

On lines 1 through 12 below, enter the number of full time employees employed at the end of each month by the business located in the enterprise zone.

Line 27 - Net Increase in Qualified Employment Positions

Subtract the amount on line 26 from the amount on line 25. If this amount is less than one, enter zero. If this amount contains a decimal, round down to the next whole number. This is the net increase in qualified employment positions for the current taxable year.

NOTE: If the amount shown on line 27 is zero, the business may not claim an enterprise zone credit for qualified employment positions created during the current taxable year.

Part IX - Maximum Number of Qualified Employment Positions

Line 28 -

Enter the total number of qualified employment positions created during the taxable year. A newly created position is a qualified employment position on the date that it meets all of the requirements for a qualified employment position.

A qualified employment position must meet **all** of the following requirements:

1. The position must be a minimum of 1,750 hours per year of full time employment. Do not include overtime hours in the minimum requirement computation.
2. The position must include health insurance coverage for the employee for which the employer pays at least 50 percent of the premium or membership cost.
3. The compensation paid by the employer for this position must at least equal the wage offer by county for a particular taxable year as computed annually by the Department of Economic Security Research Administration Division.

NOTE: Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341 regarding the wage offer by county for a particular taxable year as computed annually by the Department of Economic Security Research Administration Division.

Line 29 -

Enter the net increase in qualified employment positions from Part VIII, line 27.

Line 30 -

Enter the smaller of line 28 or line 29. This is the maximum number of new qualified employment positions for which the business may claim a credit before application of the 35 percent enterprise zone residency requirement.

Average Full Time Employment Worksheet

	Line 25 Column - Current Taxable Year	Line 26 Column - Immediately Preceding Taxable Year
1. January	_____	_____
2. February	_____	_____
3. March	_____	_____
4. April	_____	_____
5. May	_____	_____
6. June	_____	_____
7. July	_____	_____
8. August	_____	_____
9. September	_____	_____
10. October	_____	_____
11. November	_____	_____
12. December	_____	_____
13. Total - add lines 1 through 12.	_____	_____
14. Total number of months during the taxable year in which the employer was in business	_____	_____
15. Average - Divide the amount on line 13 by the amount total on line 14. Do not round the quotient.	_____	_____

Application of 35 Percent Enterprise Zone Residency Requirement

Thirty-five percent of the new employees in qualified employment positions for which the first year credit is claimed must be enterprise zone residents. The employees in these positions must be residents of an enterprise zone within the county in which the business is located on the date of hire during the taxable year.

Line 31a -

Enter the number of new employees in qualified employment positions that are enterprise zone residents.

Line 31b -

Divide the amount on line 31a by 35 percent (.35). Enter the quotient. If this amount contains a decimal, round down to the next whole number.

Line 31c -

Enter the smaller of line 30 or line 31b. This is the maximum number of qualified employment positions for which the credit may be claimed after application of the enterprise zone residency requirement.

NOTE: Complete the Arizona Form 304-4 listing each qualified employment position for which the credit is being claimed only after completing Part IX and Part X, line 32, of Arizona Form 304. The maximum number of qualified employment positions entered on line 33, column (a), cannot exceed the number of qualified employment positions entered on Part IX, line 31c.

Part X - Credit Calculation for Qualified Employment Positions

The enterprise zone credit for qualified employment positions is a new credit that applies only to taxable years beginning from and after December 31, 1995. The business may claim the first year credit only for employees in new qualified employment positions who were hired in taxable years beginning from and after December 31, 1995.

The taxpayer may claim the first, second, and third year credits for a qualified employment position only if the position continues to meet all of the requirements for a qualified employment position. The

compensation paid by the employer for the position must at least equal the wage offer by the county published for a particular taxable year beginning on the first day of the employer's taxable year to maintain eligibility for the second and third year credits.

Line 32 - Arizona Residency

Answer the question on line 32. If the answer to this question is no, the business is not eligible for an enterprise zone credit for its qualified employment positions (lines 33 through 36) filled by employees who are not Arizona residents.

In order to claim the credit for qualified employment positions, each employee in a qualified employment position for which the credit is claimed must be a resident of Arizona. The residency requirement applies to the first, second, and third year credits. Refer to Arizona Individual Income Tax Procedure ITP 92-1 for information on determining Arizona residency. Call one of the Taxpayer Information and Assistance help numbers listed on page 1 of these instructions to obtain a copy of the tax procedure.

Lines 33 through 36 and Arizona Forms 304-3 and 304-4

Before completing lines 33 through 36, Part X of Arizona Form 304, complete Arizona Forms 304-3 and 304-4. Complete Arizona Form 304-3 listing each employee in the first year of employment. Complete the Arizona Form 304-4 listing each employee in a qualified employment position for which a credit is being claimed. The maximum number of first year employees in qualified employment positions entered on Arizona Form 304-4 cannot exceed the maximum number of qualified employment positions entered on Part IX, line 31c. All employees listed on the Arizona Form 304-4 must be Arizona residents. Requirements for listing an employee in a qualified employment position for which the business is claiming the first year credit are: (1) the employee was hired at least 90 days prior to the end of the taxable year; and (2) wages entered in column (e1) are wages paid to the employee for the period of time during which the position met all of the requirements for a qualified employment position, up to a maximum of \$2,000.

NOTE FOR PARTNERSHIPS:

Complete this section and attach a statement which lists the name of each partner, the partner's Social Security number or federal employer identification number, percentage of ownership, and the amount of credit passed through to the partner. The partnership must provide this information to each partner. Each partner must attach a copy of the statement provided by the partnership to the partner's Arizona tax return.

Line 33 - Column (a)

Enter the number of new employees in qualified employment positions from Arizona Form 304-4, line 13, column (c1).

NOTE: The maximum number of qualified employment positions entered on line 33, column (a), cannot exceed the number of qualified employment positions entered on Part IX, line 31c.

Line 33 - Column (b)

Enter the maximum allowable wages for all first year employees in qualified employment positions from Arizona Form 304-4, line 13, column (e1).

Line 33 - Column (d)

Multiply the amount entered on line 33, column (b), by the percent shown on line 33, column (c). Enter the result on line 33, column (d). This is the allowable credit for new qualified employment positions.

Line 34 - Column (a)

Enter the total number of employees in qualified employment positions in the second year of continuous employment from Arizona Form 304-4, line 13, column (c2).

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed new employees leaves employment in year two, the business can claim the second year credit for another employee in a qualified employment position who is in the second year of continuous employment.

Line 34 - Column (b)

Enter the maximum allowable wages for all employees in qualified employment positions in the second year of continuous employment, from Arizona Form 304-4, line 13, column (e2).

Line 34 - Column (d)

Multiply the amount shown on line 34, column (b), by the percent shown on line 34, column (c). Enter the result on line 34, column (d). This is the allowable credit for employees in qualified employment positions in their second year of continuous employment.

Line 35 - Column (a)

Enter the total number of employees in qualified employment positions in the third year of continuous employment from Arizona Form 304-4, line 13, column (c3).

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed new employees leaves employment in year three, the business can claim the third year credit for another employee in a qualified employment position who is in the third year of continuous employment.

Line 35 - Column (b)

Enter the maximum allowable wages for all employees in qualified employment positions in the third year of continuous employment from Arizona Form 304-4, line 13, column (e3).

Line 35 - Column (d)

Multiply the amount shown on line 35, column (b), by the percent shown on line 35, column (c). Enter the result on line 35, column (d). This is the allowable credit for employees in qualified employment positions in their third year of continuous employment.

Line 36 -

Add the numbers in column (a) on lines 33, 34, and 35. Enter the total in column (a) on line 36. Add the amounts in column (d) on lines 33, 34, and 35. Enter the total in column (d) on line 36. The number shown on line 36, column (a), is the total number of employees in qualified employment positions for which the enterprise zone credit is being claimed. The amount shown on line 36, column (d), is the total allowable enterprise zone credit for qualified employment positions for the current taxable year.

Part XI - Available Carryover

The business should complete Part XI only if its allowable enterprise zone tax credit for qualified employment positions for prior taxable years exceeded its Arizona income tax liability for those taxable years. This credit applies only to taxable years beginning from and after December 31, 1995. Since the enterprise zone credit for qualified employment positions is a new credit, there is no available carryover of this credit from taxable years beginning prior to January 1, 1996.

NOTE: *The business is allowed to carry forward the amount of the unused enterprise zone credit, for a period not to exceed five taxable years, provided the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone or the enterprise zone is terminated, the carryover of the tax credit is lost.*

Partners of a partnership or shareholders of an S corporation should complete Part XI only if their allowable enterprise zone tax credit for prior taxable years exceeded their Arizona income tax liability for those taxable years. Since the enterprise zone credit for qualified employment positions is a new credit, there is no available carryover of this credit from taxable years beginning prior to January 1, 1996.

Line 37 -

Enter the applicable taxable year(s) in columns (a) through (e).

Line 38 -

In columns (a) through (e), enter the amount of the original tax credit earned for that taxable year.

Line 39 -

In columns (a) through (e), enter the amount of the tax credit for that taxable year which has been previously used.

Line 40 -

In columns (a) through (e), subtract the amount on line 39 from the amount on line 38. Enter the result in the applicable columns on line 40. This is the tentative carryover.

Line 41 -

In columns (a) through (e), enter the amount of the credit which is unallowable because the business is no longer located in the enterprise zone or the enterprise zone has been terminated.

Line 42 -

In columns (a) through (e), subtract the amount on line 41 from the amount on line 40. Enter the result in the applicable columns on line 42. This is the carryover available from prior taxable years.

Line 43 -

Add the amounts in columns (a) through (e) on line 42. Enter the total in column (f) on line 43. This is the total enterprise zone credit carryover for qualified employment positions available for the current taxable year.

In order for a partner of a partnership or a shareholder in an S corporation to be eligible for an enterprise zone credit carryover, the business must remain in the enterprise zone. Therefore, a partnership or an S corporation that passed the credit through to its partners or shareholders must furnish each partner or shareholder with a statement indicating that the business is still located in the enterprise zone.

Each partner or S corporation shareholder must complete Part XI for the computation of the available carryover of the credit passed through by the partnership or S corporation.

Part XII - Total Available Credit for Qualified Employment Positions

Lines 44 through 46 -

NOTE FOR PARTNERSHIPS: *The partnership must complete Parts VII through X of the Arizona Form 304 and provide a copy of the completed Arizona Form 304 to each partner. Each partner must complete Part XII for the application of the credit passed through by the partnership.*

NOTE FOR S CORPORATION SHAREHOLDERS: *Each shareholder must complete Part XII for the application of the credit passed through by the S corporation (see Part XIII).*

Line 44 -

Enter the amount from Part X, line 36, column (d). This is the current year's credit for qualified employment positions.

Important: If the business is claiming the enterprise zone credit for more than one business location, the business should attach a separate schedule which details the use of the credit by location. If the business is claiming an enterprise zone credit for qualified employment positions for more than one business location, enter the aggregate credit amounts on line 44.

NOTE FOR S CORPORATIONS: *If the S corporation has elected to pass the enterprise zone credit for qualified employment positions through to its shareholders (refer to Part XIII), enter zero.*

Line 45 -

Enter the amount from Part XI, line 43, column (f). This is the total available carryover for qualified employment positions.

Important: If the business is claiming an enterprise zone credit carryover for more than one business location, the business should attach a separate schedule which details the use of the credit carryover by location. If the business is claiming an enterprise zone credit carryover for more than one business location, enter the aggregate credit carryover amounts on line 45.

Line 46 -

Add lines 44 and 45. This is the total available enterprise zone credit for qualified employment positions.

Part XIII - Special Note for S Corporations

This portion of the Arizona Form 304 must be completed by the S corporation in order for the S corporation or its shareholders to claim the enterprise zone credit for qualified employment positions. The S corporation must make an irrevocable election either to claim the credit itself or to pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Arizona Form 120S.

If the S corporation elects to pass the credit through to its shareholders, it must also attach a statement which lists: the name of each shareholder; the shareholder's social security number or federal employer identification number; percentage of ownership; and amount of credit passed through to the shareholder.

The S corporation must provide this information to each shareholder. Each shareholder must attach a copy of the statement provided by the S corporation to the shareholder's Arizona tax return.

NOTE: *The S corporation must make the same election for the enterprise zone credits for qualified employees and dislocated workers in Part VI as it makes in Part XIII for the enterprise zone credit for qualified employment positions. If the S corporation elects to claim the credits for qualified employees and dislocated workers in Part VI, it must also elect to claim the credit for qualified employment positions in Part XIII.*

Part XIV - Total Available Credit for Qualified Employees, Dislocated Workers, and Qualified Employment Positions

Line 47 -

Enter the total available credit for qualified employees and dislocated workers from Part V, line 20.

Line 48 -

Enter the total available credit for qualified employment positions from Part XII, line 46.

Line 49 -

Add lines 47 and 48. This is the total available enterprise zone credit for qualified employees, dislocated workers, and qualified employment positions which may be applied to the current year's tax liability. Enter the total here and on Arizona Form 300, Part I, line 2, or on Arizona Form 301, Part I, line 2.